APPENDIX.

The Missouri *statute requiring* insurance companies to set up unearned premium *reserve* as a liability is Sec. 6222, R. S. Mo. 1919, reading as follows:

"**Sec. 6222. Reports, when to be made and what to contain.**—It shall be the duty of the president or vice-president and secretary or a majority of the directors of every insurance company organized under this article, or the laws of this state, or of the United States or any other state of the United States, doing the business mentioned in Section 6203, annually, on the first day of January, or within thirty days thereafter, to prepare under oath and deposit in the office of the superintendent of the insurance department a statement made up for the year ending the 31st day of December next preceding, showing: First, the amount of capital stock of the company, if it be a joint stock company, or if it be a mutual company, the amount of the face of the premium notes held by it, and the amount thereof remaining unpaid, specifying the amount constituting liens on property, and the amount of guarantee fund, if the company have such fund; second, the property or assets held by the company, specifying: First, the value of the real estate held by such company; second, the amount of cash on hand or deposited in banks to the credit of the company, specifying in what banks the same are deposited; third, the amount of cash in the hands of agents and in the course of transmission; fourth, the amount of loans secured by bonds and mortgages or by deeds of trust; fifth, the amount of notes and bills receivable, matured and remaining unpaid; sixth, the amount of notes and bills receivable maturing; seventh, the amount of other securities held by the company, specifying what they are and their cash value; eighth, the amount of debts considered bad or doubtful; third, the *liabilities* of the company, as follows: First, the amount due or to become due to banks or other creditors; second, losses adjusted and due; third, losses adjusted and not due; fourth, losses unadjusted and in suspense and awaiting further proofs; fifth, *premium re-*

served or amount required to safely reinsure all outstanding risks, to be estimated by taking fifty per cent of the gross premiums on all unexpired fire risks that have less than one year to run, and a pro rata of all gross premiums on risks that have more than one year to run, with fifty per cent of the gross premiums on all unexpired inland navigation risks, and the whole amount of the gross premiums on all unexpired marine risks; sixth, all other claims against the company; fourth, greatest amount insured in any one risk; fifth, the number of agents employed in this state or other states; sixth, the amount of outstanding risks and gross premiums received and receivable thereon at the date of each statement; seventh, the amount of receipts from all sources, and amount of expenditures for all purposes, including dividends for the last fiscal year preceding the date of the statement; and eighth, a statement of any other facts or information concerning the affairs of said company which may be required by the superintendent." (Italics ours.)

The Missouri statute prohibiting insurance companies from paying dividends out of unearned premiums is Sec. 6333, R. S. Mo. 1919, reading as follows:

"**Sec. 6333. Dividends shall not be made, when.**—*It shall not be lawful for the directors, trustees or managers of any insurance company to make any dividend, except from the surplus profits arising from their business,* nor for any company to solicit or do new business, when its assets are less than three-fourths of its liabilities. Any company violating the provisions aforesaid shall be subject to proceedings for dissolution. Each stockholder in a stock company receiving any dividend made in violation of the above provision shall be liable to the creditors of such company to the extent of the dividend received, with compound interest on the same from the date of its receipt, as well as the cost of collecting the same, and the managers, trustees or directors assenting to the same, or any agent soliciting or doing new business, knowing or having reasonable cause to believe that such company is impaired as aforesaid, shall be deemed guilty of a violation of the provisions of this law, and shall be punished as by this chapter provided." (Italics ours).

The Missouri *statute requiring* insurance companies to *report* to the Superintendent of Insurance all such facts as the Superintendent may require, is Sec. 6281 R. S. Mo. 1919, reading as follows:

> **"Sec. 6281. Companies to report premiums, losses, expenses and earnings on unearned premiums.**—Every stock fire insurance company licensed to do business in this state shall annually before March 1st of each year report to the superintendent of insurance the total amount of business in this state for the preceding year. In reporting expenses, it shall separately state its disbursements and expenses for:
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> (*a*) Commissions paid to agents.
>
> (*b*) Salaries paid.
>
> (*c*) Taxes paid.
>
> (*d*) Other underwriting disbursements.
>
> Each such company shall also report the total amount of its earnings on unearned premiums, *and such other matters as the superintendent of insurance may require.* And all insurance adjusters, whether employed regularly on a salary, or acting in the capacity of adjuster by special contract, for or on account of any fire insurance company, shall be considered an employe of said company and be subject to regulation and requirements of the fire insurance laws of Missouri as if they were originally commissioned agents therefor."

The provision of *federal income tax law* applicable to insurance companies appears as Sec. 246 in the Revenue Acts of November 23, 1921, June 2, 1924, and February 26, 1926. Section 246 is identical in each act except as to dates and numbers of other sections referred to therein. Sec. 246 of the Revenue Act of November 23, 1921, is as follows:

> **"Other insurance companies; taxes imposed upon in lieu of other taxes; gross income; net income; investment income; underwriting income; premiums earned on insurance contracts during the taxable year; losses incurred; expenses incurred—**
>
> (*a*) In lieu of the taxes imposed by Sections 230 and 1000, there shall be levied, collected and paid for the cal-

endar year 1922, and for each taxable year thereafter, upon the net income of every insurance company (other than a life or mutual insurance company) a tax as follows:

(1) In the case of such a domestic insurance company the same percentage of its net income as is imposed upon other corporations by Section 230;

(2) In the case of such a foreign insurance company the same percentage of its net income from sources within the United States as is imposed upon the net income of other corporations by Section 230.

(*b*) In the case of an insurance company subject to the tax imposed by this section—

(1) The term 'gross income' means the combined gross amount earned during the taxable year, from *investment* income and from *underwriting* income as provided in this subdivision, computed on the basis of the underwriting and investment exhibit of the annual statement approved by the National Convention of Insurance Commissioners;

(2) The term 'net income' means the gross income as defined in paragraph (1) of this subdivision less the deductions allowed by Section 247;

(3) The term 'investment income' means the gross amount of income earned during the taxable year from interest, dividends and rents, computed as follows:

To all interest, dividends and rents received during the taxable year, add interest, dividends and rents due and accrued at the end of the taxable year, and deduct all interest, dividends and rents due and accrued at the end of the preceding taxable year;

(4) *The term 'underwriting income' means the premiums earned on insurance contracts during the taxable year less losses incurred and expenses incurred;*

(5) The term 'premiums earned on insurance contracts during the taxable year' means an amount computed as follows:

From the amount of gross premiums written on insurance contracts during the taxable year, deduct return premiums and premiums paid for reinsurance. To the result so obtained add unearned premiums on outstanding business at the end of the preceding taxable year and

deduct unearned premiums on outstanding business at the end of the taxable year;

(6) The term 'losses incurred' means losses incurred during the taxable year on insurance contracts, computed as follows:

To losses paid during the taxable year, add salvage and reinsurance recoverable outstanding at the end of the preceding taxable year, and deduct salvage and reinsurance recoverable outstanding at the end of the taxable year. To the result so obtained add all unpaid losses outstanding at the end of the taxable year and deduct unpaid losses outstanding at the end of the preceding taxable year;

(7) The term 'expenses incurred' means all expenses shown on the annual statement approved by the National Convention of Insurance Commissioners, and shall be computed as follows:

To all expenses paid during the taxable year add expenses unpaid at the end of the taxable year and deduct expenses unpaid at the end of the preceding taxable year. For the purpose of computing the net income subject to the tax imposed by this section there shall be deducted from expenses incurred as defined in this paragraph all expenses incurred which are not allowed as deductions by Section 247. (42 Stat. 262)."